

***Better than Expected
Line Growth Fueled
by Strong Residential
2nd Line Additions***

- Bell Atlantic's line growth accelerated to 3.5%, better than our forecast and the fourth quarter's 3.4% growth. The growth resulted from a 2.7% increase in residential lines (up from 4Q's 2.4%) as a result of strong second line adds. Bell Atlantic added 205,000 residential second lines in the first quarter and residential second line penetration is now about 13% vs. 10% a year ago with no stopping in sight (the company talks of the "2-cars in every garage" phenomenon, substitute phone lines for cars). In a somewhat worrisome trend, business line growth decelerated to 5.2% from 4Q's 5.5% despite big, 9.9% Centrex line growth and other RBOCs showing modest acceleration.

***1Q Access Minute
Growth Accelerated,
Beating Our Forecast***

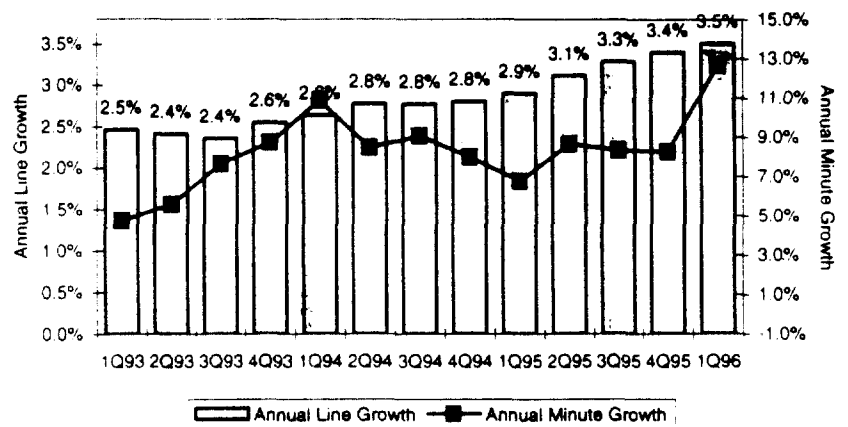
- Access minute growth accelerated significantly to 12.7%, well above our forecast and 4Q's 8.2%. Intrastate access minutes increased over 21%. Toll messages increased 7.7% year-over-year, a strong improvement from 4Q's 1.8% growth as Bell Atlantic has slowed market share loss (which otherwise boosts intrastate access minutes). Competitive toll rate reductions and expanded local calling areas contributed to a 0.7% increase in toll revenues. Bell Atlantic's average toll rate in New Jersey (its most competitive market) is now about \$0.08/minute and it appears toll share loss has been halted. We believe much of the acceleration in volume growth is due to bad weather stimulated calling. But we also note, quite surprisingly, that the winter storms did not interfere with line growth on the residential side. (Perhaps more snow days off left more idle time at home for parents and kids to learn to connect to the Internet and thus demanded a second line to do so!)

***As Expected, Wireless
Growth 42% Y/Y***

- On a combined basis, BANM added 217,000 subscribers for an annualized penetration gain of 1.6%, in line with our forecast and well above 1Q95's 1.3%. Subscribers grew 42% year over year to 3.58 million for a penetration rate of 6.4%. Revenues grew 29.6% year-over-year due to an 8.1% year-over-year decline in revenue per subscriber, in line with our forecast and a strong improvement from 1995's double-digit declines. Operating cash flow grew 79% to \$194 million from \$109 million in 1Q95. Operating cash flow margin improved to 42% from 29% in the year-ago first quarter reflecting the efficiencies and marketing improvements available from combining contiguous properties. On a proportionate basis, BANM doubled its Bell Atlantic's pretax contribution to \$77 million (about \$0.11/share), up from only \$36 million in the year ago quarter.

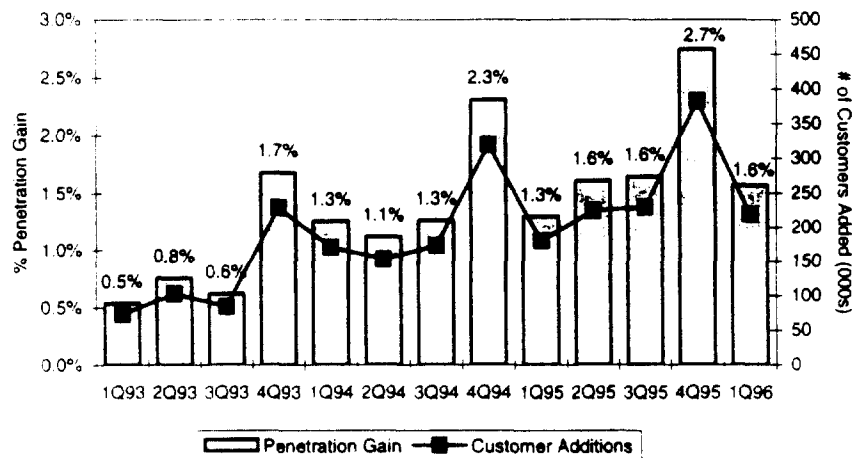
**Bell Atlantic:
Line Growth and
Minute Growth
Accelerates**

Access-Line and Minute Growth



**BANM: Gains in
Y/Y Growth**

Cellular Subscriber Adds and Penetration Gain*



* Penetration-gain reflect net subscriber additions (annualized) divided by population in properties.

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BellSouth
BLS - \$41 1/8

**1Q \$0.03 Above,
Raised '96E & '97E**

**Revenue Growth
Almost 9% Stronger
Than Expected...**

**...Driving Operating
Expense Growth
Higher than Our
Forecasts**

**Line & Access Minute
Growth Accelerated as
Marketing of Vertical
Services & 2nd Lines is
Paying Off**

QRO Rating	Shares Out	EPS		EPS		1997E	EPS Growth Rate	
		1Q95A	1Q95E	1995A	1995E		95/95E	97/95E
B-2-2-7	994	\$0.63	\$0.55	\$2.24	\$2.50	\$2.75	11.4%	10.0%

* EPS figures are on recurring basis and thus do not reflect one-time items.

- BellSouth earned recurring EPS of \$0.63 in first quarter, up 14.5% year-over-year, \$0.03 above our estimate and consensus. Reported EPS of \$0.98 included a \$0.35 one time gain on the sale of paging operations. We raised 1996E by \$0.05 from \$2.45 to \$2.50 (11.4% growth) and 1997E by \$0.08 from \$2.67 to \$2.75 (10.0% growth).
- The first quarter's strong EPS growth was driven by total revenue growth of 5.6% year-over-year (or almost 9% net of directory accounting changes and paging sale) which was much better than our forecast of 4.0%. Normalized telco revenue growth of 7% was driven by local revenue (including value added services) growth of 9.1% and interstate access revenue growth of 14.3%. Directory & Publishing revenues declined 10% year-over-year, due to a change in accounting as required by BellSouth's move off of FAS 71 (now required to recognize all revenue when book is issued instead of allocating revenues over the year of the issue). Normalized directory growth was about 4.5%. Vertical services (memory call, caller ID, etc.) revenues grew over 21% year-over-year to \$220 million.
- The strong revenue growth drove operating expense growth to 4.8% in first quarter versus our forecast of 3.1%. Normalized to exclude the paging sale, total operating expenses increased 7.3%. SG&A expenses were up 14.0% year-over-year due to greater advertising expenditures designed to accelerated vertical service and cellular growth and improve software used for vertical service features. Operating income grew 8.0% year-over-year, better than our forecast of 6.6%. We estimate normalized operating income growth was 13.8% year-over-year. Interest expense was in line with expectations at \$180 million, up \$6 million year-over-year, but down about \$12 million sequentially from fourth quarter which was unusually high due to some overlapping of interest payment periods when BellSouth converted short-term into long term debt. Other income increased by about \$47 million year-over-year due to greater cellular equity income and higher interest income. Pre-tax income of \$1039 million (before one-time gains) increased 14.2% year-over-year, versus our forecast of 8.8% growth. BellSouth's effective tax rate was only 34.5%, due to the paging sale. The normalized tax rate was 39.8%, in line with our forecast. We continue to forecast an effective tax rate of about 39.5% going forward.
- BellSouth's RBOC leading line growth accelerated to 4.8% from 4.5% in the fourth quarter, better than our forecast of 4.6% due to a strong regional economy and second line additions. Residential second line growth continues to accelerate and drive residential line growth. Residential second lines installed grew 23% year-over-year to 1.35 million (9% penetration) and contributed about \$100 million to revenues in the first quarter. Caller ID subscribers grew 106% to over 2.4 million subscribers (16% penetration) and memory call (voice mail) subscribers grew 23% to over 1.6 million (11% penetration). At \$7.95/month, annualized Caller ID revenues are currently over \$220 million and growing rapidly. Business line growth was 7.9%, equal to the fourth quarter, with Georgia, Florida, Tennessee and Kentucky reporting the strongest growth rates (over 8.1%). Access minute growth accelerated as well, jumping to 10.8% from 9.0% in the fourth quarter — comprised of interstate minutes at 10.1% and intrastate minutes at 13.0%, the latter due to boosted competitor usage of access for 10XXX intra-LATA toll dial around. That dial around contributed to a 24% year-over-year decline in Intra-LATA toll

messages. Also contributing to the toll message decline was a deliberate expansion in local calling areas (which translates into higher local and lower toll revenues while simultaneously reducing the competitive risk to toll revenues)

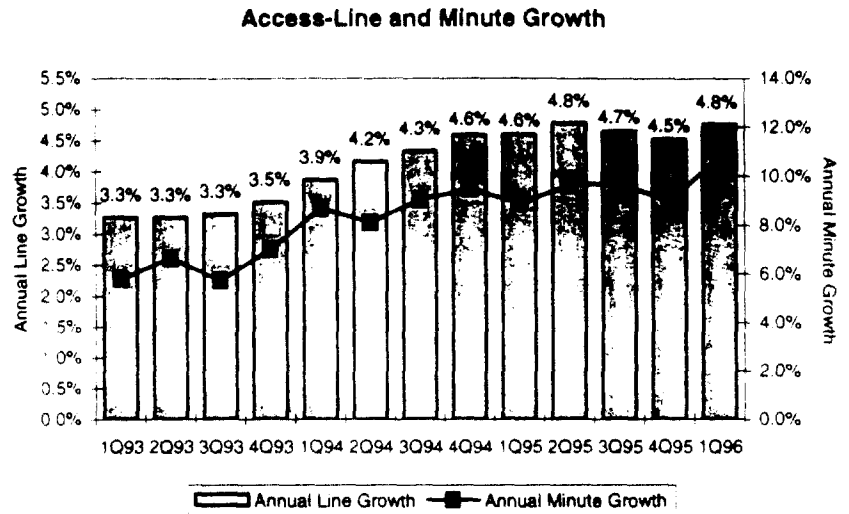
***Extremely Strong
Cellular Gains, Again
— Both Domestic...***

- BellSouth added 198,000 domestic cellular subscribers in the first quarter for an annualized penetration gain of 2.0%, better than our forecast of 185,000 and the year ago first quarter's 164,000. Total domestic subscribers grew 31% year-over-year to reach over 3 million for a total penetration of over 7.6% versus 5.7% at the end of first quarter 1995. Domestic cellular revenues grew 27% year-over-year and operating cash flow increased 27% as OCF margin remained unchanged at 40%. Average revenue per domestic subscriber declined less than 2% to \$59/month from \$60 in first quarter 1995.

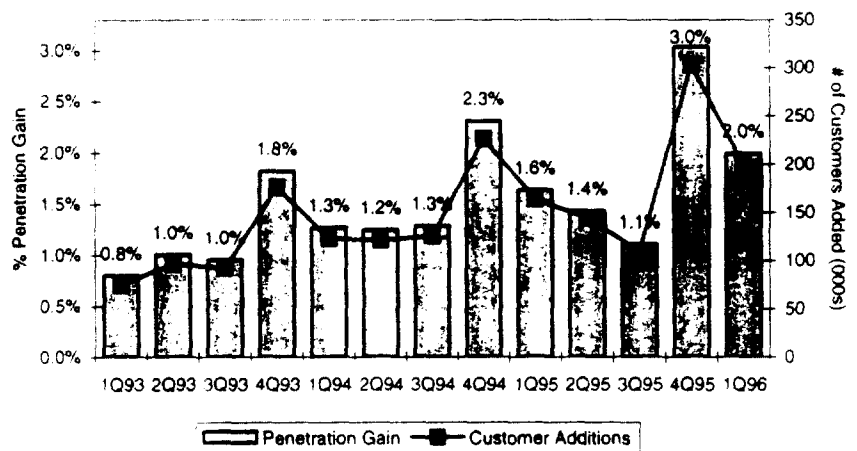
...And International

- International cellular subscribers grew 106% year-over-year and revenues grew 56%. In Latin America, revenue per subscriber averaged \$89/month, down 17% annually but still \$30/month higher than domestic subscribers. Latin American cellular contributed just over \$0.01 to EPS in first quarter, down slightly from first quarter 1995 due to a \$4 million loss from currency devaluation in Venezuela.

**BellSouth:
Very Strong Line Growth**



Cellular Subscriber Adds and Penetration Gain*



* Penetration-gain reflect net subscriber additions (annualized) divided by population in properties.

**Investment
Conclusion**

We rate BellSouth's shares Accumulate in the intermediate term and long-term (B-2-2-7) because of its below average competitive risks, low likelihood of large broadband investments, below (RBOC) average 1996 EBITDA multiple, below average dividend payout ratio and strong core growth. We also note that dilution from international investments may have already peaked — which could lead to stronger year-over-year growth going forward.

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NYNEX

NYN - \$48 5/8

2RQ Rating	Shares Out	EPS		EPS			EPS Growth Rate	
		1Q96A	1Q95A	1995A	1996E	1997E	96/95E	97/96E
RSTR	436	\$0.83	\$0.72	\$3.28	\$3.57	\$3.87	9.1%	8.3%

EPS figures are on recurring basis and thus do not reflect one-time items.

Highlights:

**\$0.02 Above; Raised
'96E and '97E by
\$0.02 Each**

**Total Revenues Grew
5.6% Y/Y; Operating
Income Up 10.6%,
Both Better than
Estimates**

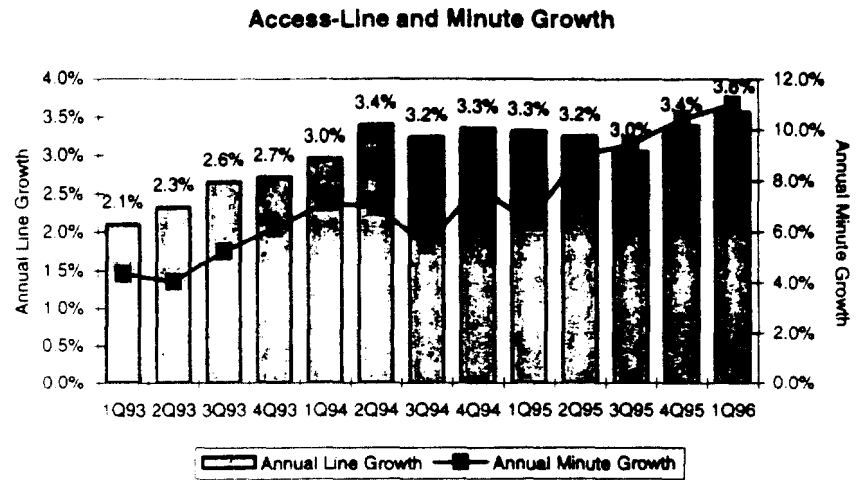
**Strong Line Growth
Acceleration, Again**

**Wireless Contribution
In Line with Our
Forecasts**

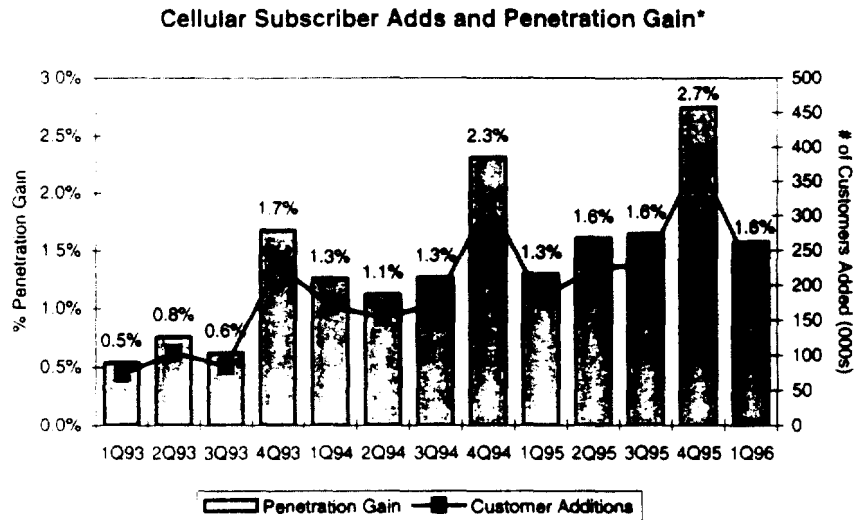
- NYNEX reported first quarter EPS of \$0.79, including several one-time items netting to a \$0.04 one-time charge. Excluding this charge, NYNEX earned \$0.83, \$0.02 above our estimate, \$0.01 above consensus and 15.0% above the year ago recurring \$0.72. We raised our 1996 & 1997 estimates by \$0.02 each to pass through the first quarter's \$0.02 surprise.
- Total revenues grew 5.6% y/y, better than our forecast of 3.8%. Local service revenue grew 1.5% and access revenue grew 5.6%, both in line with our forecast. Long distance revenue growth was well above our forecast, growing 6.6% year-over-year despite \$10 million in rate reductions due to stronger volumes. This is an improvement from 1995's 3.9% decline and much better than our forecasted decline of 1.5%. The strength in toll is similar to the reported results of several other RBOCs in first quarter. Total rate impact in the 1Q, including toll and access rate reduction net of a decrease in required set-asides, amounted to negative \$26 million, slightly worse than the fourth quarter's \$16.7 million. Normalized operating expenses increased 4.3% y/y, worse than our forecast of 3.0%. Maintenance and Support drove the expense growth in the first quarter. It was up 8.8% y/y versus our forecast of only 1.5% due to higher volumes and bad winter weather. Normalized operating income totaled \$710 million, up 10.6% year-over-year and about \$20 million better than our forecast. One-time items included a special pension enhancement charge of \$66.5 million after-tax (\$0.16/share), accounting adjustments that totaled a \$4 million after tax gain (\$0.01/share) and a \$45.8 million after-tax gain (\$0.11/share) on the sale of an interest in Vanstar Corporation. Interest expense of \$165 million was \$5 million lower than our forecast. NYNEX reported slightly higher than expected effective tax rate (36.6% versus 34.5%) and we continue to forecast a tax rate of 35% going forward.
- NYNEX's line growth accelerated to 3.6%, 20 basis points better than our forecast and the fourth quarter's 3.4%. The 3.6% growth resulted from a 2.0% increase in residential lines (vs. 1.8% in fourth quarter) and a 7.0% increase in business lines (incl. 16.2% Centrex growth), up 30 basis points from fourth quarter's 6.7% growth. Access minute growth accelerated to 11.0% from 10.4% in the fourth quarter. Residential additional lines grew 12% to 13 million lines for a penetration rate of 13%.

On a combined basis, BANM added 217,000 subscribers for an annualized penetration gain of 1.6%, in line with our forecast and better than the year-ago 1Q's 1.3% annualized penetration gain. Subscribers grew 42% year-over-year to 3.58 million for a penetration rate of 6.4%. Revenues grew 29.6% year-over-year and average revenue per subscriber decline 8.1% y/y to \$57/month. Operating cash flow more grew 79% to \$194 million and operating cash flow margin improved to 42% from 29% in the year-ago 1Q. On a proportionate basis, BANM contributed \$42 million to pre-tax income (about \$0.06/share) versus less than \$15 million in 1Q 1995.

NYNEX:
Both Line & Minute
Growth Accelerated
in 1Q



BANM:
Gains in Y/Y Growth



* Penetration-gain reflect net subscriber additions (annualized) divided by population in properties.

Pacific Telesis

PAC - \$33 7/8

Highlights:

1Q \$0.06 Better Than Expected; Raised Both '96E & '97E \$0.10

Revenues Grew 3.5%, Better than Expected, Toll Share Loss Halted

Operating Expenses Declined vs. Forecasted Increase Due to Pension Adjustment that Will be Ongoing

Line Growth Accelerated Significantly, Well Above Estimates, Minute Growth Decelerated

Regulatory Environment Update

Q/RQ Rating	Shares Out	EPS		EPS			EPS Growth Rate	
		1Q96A	1Q95A	1995A	1996E	1997E	96/95E	97/96E
B-2-2-8	428	\$0.70	\$0.67	\$2.48	\$2.60	\$2.45	4.9%	-5.7%

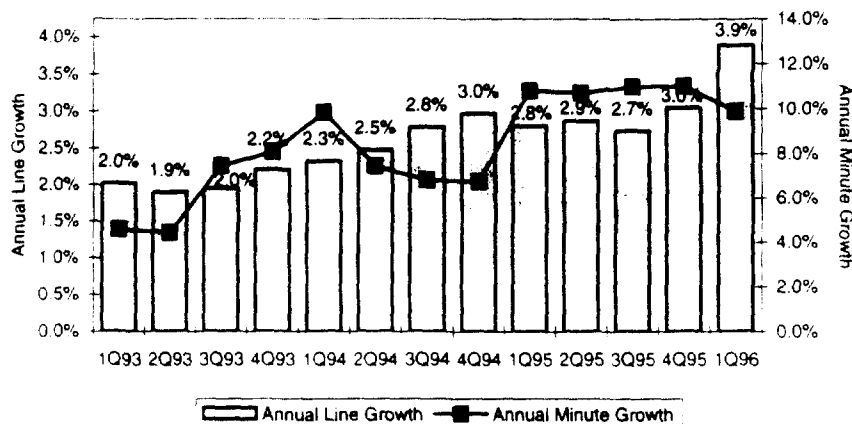
* EPS figures are on recurring basis and thus do not reflect one-time items.

- Pacific Telesis earned \$0.70/sh in first quarter, \$0.06 above our estimate and consensus. A permanent change in pension and benefit assumptions accounted for about \$0.04 of the \$0.06 surprise. The remaining \$0.02 was due to strong revenue growth and cost control. We raised our 1996 & 1997 estimates by \$0.10 each to \$2.60 and \$2.45, respectively.
- Total revenues grew 3.5% year-over-year, slightly better than our forecast and a significant improvement from 1995's 2% decline. The revenue decline in '95 was due to the impact of rate cuts and competitive toll losses which caused a 38% decline in toll revenues which were only partially offset by local and access rate increases. This quarter, toll revenues declined less than 1% as PacTel has halted share loss at about 5% but growth is still being dragged down by expanding local calling areas and competitive pricing.
- Total operating expenses declined 1.2% versus our forecasted 2.2% increase. Most of the decline was the result of a change in pension and benefits assumptions that will reduce expenses going forward. This reduction boosted earnings by about \$0.04/share in 1Q and is the primary reason we are raising our 1996 and 1997 estimates. Operating income totaled \$90 million, up 20.4% versus our forecast 7.5%. Interest expense totaled \$93 million versus \$117 in the year-ago quarter, slightly lower than our estimate. Partially offsetting was a higher effective tax rate at 39.5% versus our forecast of 38%.
- PacTel reported line growth of 3.9%, up 90 basis points from 4Q's 3.0% and well above our forecast of 3.2%. Residential line growth was 3.1%, up from 2.1% in 4Q. Second lines grew 11% y/y to 1.86 million and accounted for 60% of the growth in residential lines. Second line penetration has reached over 20%. Business line growth accelerated to 5.4%, up from 4.9% in 4Q. Access minutes grew 10% year-over-year, below our forecast and 4Q's 11%. Intrastate access minute growth has decelerated significantly to 15.1% versus 21.3% in 4Q — growth for the latter was boosted from the introduction of toll competition in California last year and by "tariff arbitrage" — i.e., long distance carriers shifting usage from 1.8 cents/minute *interstate* access to 1.4 cents/minute *intrastate* access. 1996's trend will be a more normalized trend.
- Several regulatory decisions will be made in 1996: (1) In August, we expect the CPUC to issue its Universal Service decision which will determine how much new local competitors will contribute to the cost of universal service and other cross-subsidies. (2) By year-end, we expect the CPUC to determine pricing for unbundled rate elements. This decision will determine the price at which new entrants such as long distance carriers can lease "last mile" capacity while self-supplying switching, local backhaul transport and vertical features. It will also determine whether Pacific Bell and GTE face the risk of significant cream-skimming of their highest profit margin businesses. (3) By yearend, we also expect the CPUC to rule on Pacific Bell's request to recover \$3.7 billion in investment. ~~If~~ Granting of recovery would lead to increases in our EPS estimates and denial would likely leave our forecasts unchanged. ~~//~~ On April 8, a California ALJ issued a Proposed Decision ("PD") to dismiss PAC's petition. However, we note the ALJ's decision is only preliminary. We also note there is recent precedent for the CPUC to rule more favorably for PAC than the ALJ. (4) Finally, the CPUC will soon issue a schedule for considering the proposed SBC/PacTel merger (see below).

**Expected Closing 1Q
'97, One Sticky Issue
At CPUC**

- We expect the merger to close in early 1997 after reviews by 7 state regulatory agencies, the FCC and the Department of Justice (the latter for antitrust issues which we do not expect to be roadblocks). The only regulatory roadblock of potential significance we can envision is that California law requires merging utilities to pass 50% of any merger cost efficiencies to consumers. However, this is less of an issue than may appear for two reasons. First, PacTel already operates under a rate-of-return incentive sharing regulatory formula that requires earnings between 11.5-15% ROI to be shared 50% and above 15% ROI to be shared 30% with consumers. Second, with PAC already far down the road of process re-engineering and cost reduction, we expect most of the merger synergies to be evidenced in SBC's 5-states (i.e., outside California) and also through more cost-efficient and larger scale startups of new businesses (such as long distance, PCS, internet, etc.). With the bulk of these startup efforts to be based in California and the companies promising California 1000 more jobs as a result of the merger, it is hard to imagine a CPUC commissioner viewing the merger as bad for California especially in the context that the CPUC will continue to regulate Pacific Bell's future activities regardless of the merger. This was the attitude of the CPUC when AirTouch was spun-off from PAC several years ago: that the CPUC's regulatory powers would not change with a change in ownership and thus consumers and the state's interests would continue to be protected. Nevertheless, as logical as this seems, we cannot forget that this is California where nothing is predictable in the regulatory world.

**Pac Tel:
Strong Line Growth,
Decelerating Minute
Growth**



**Investment
Conclusion**

We view the definitive agreement to merge with SBC as a positive for both companies and our opinion remains Accumulate, B-2-2-8. We view positively PAC's and SBC's decision to merge — which we now believe will cause only 3% dilution to SBC in 1997 and accelerated growth beyond. We believe mergers create synergies and stronger long distance position, thereby enabling all involved to do well for shareholders. Each PAC share will be exchanged for 0.733 SBC shares — which means at current prices, SBC is paying \$36.75 for each PAC share, equivalent to a 10% premium to PAC's current price. However, the announcement also included a 42% or \$0.92/share dividend reduction at PacTel which we estimate transfers roughly \$4 per PAC share of present value from PAC to SBC shareholders. (Note no collar has been set — meaning PAC shareholders will get 0.733 SBC shares for each PAC share regardless of SBC's trading price.)

SBC Communications

SBC – \$50 1/8

Highlights:

**1Q A Penny Higher;
Raised '96E & '97E**

**Revenue Growth Better
than Expected; Partially
Offset by Higher
Operating Expenses;
Operating Income In-
Line with Our Forecast**

**Interest Expense and
Taxes Lower than
Expected, Equity
Income Higher**

**Record Telco Growth
Continues**

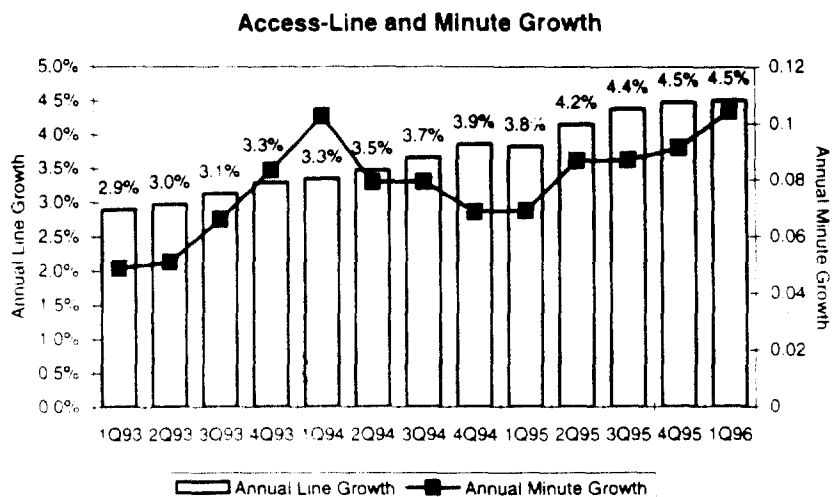
**Vertical Services
Growing Rapidly**

QRQ Rating	Shares Out	EPS		EPS			EPS Growth Rate	
		1Q96A	1Q95A	1995A	1996E	1997E	96/95E	97/96E
B-2-1-7	609	\$0.76	\$0.65	\$3.08	\$3.45	\$3.70	12.1%	7.3%

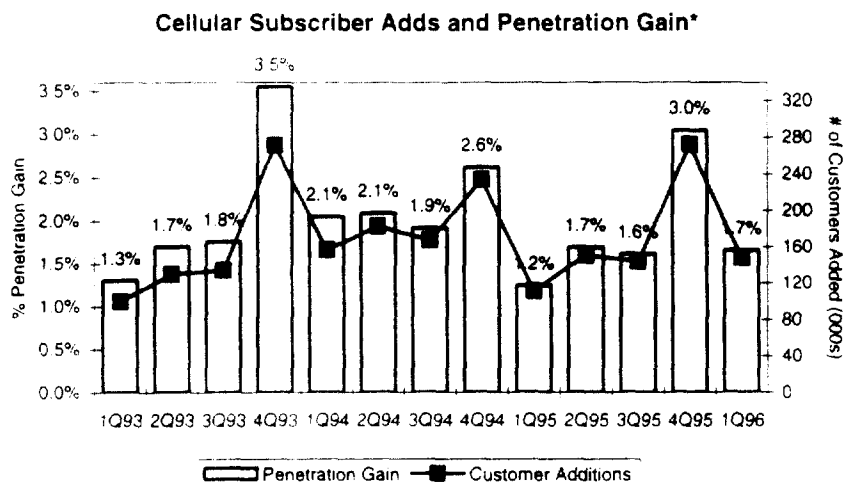
* EPS figures are on recurring basis and thus do not reflect one-time items.

- SBC reported 1Q EPS of \$0.76, \$0.01 above our estimate and 17% above the year-ago \$0.65 despite an increased tax rate. We expect the merger with PacTel to close in early 1997 which will cause an estimated 2.5% dilution to SBC in 1997 but accelerated growth beyond. We raised our both our 1996 estimate by \$0.03 from \$3.42 to \$3.45, and our 1997 estimate to \$3.70 (post PacTel merger) following stronger than expected Pac Tel 1Q earnings (\$0.70).
- Total revenues increased 9.9% year-over-year, slightly above our forecast of 9.5% and the fourth quarter's 7.5%. Local service revenues grew a surprising 8.1% vs. our forecast of 7.2% due to record line growth (4.9%) and accelerating sales of calling features (e.g., voice mail, caller ID, etc.). Intra-LATA long distance revenue grew 6.8% year-over-year, compared to 1995's 8.5% decline, due to the elimination of regulatory accruals (\$15-20 million/quarter) in Oklahoma. This elimination will continue to boost year-over-year trends in 2Q and 3Q. Excluding the effect of the accruals, toll revenue declined 4-5%, in line with expectations. Directory revenue decreased 9.4% due to SBC's divestiture of GTE directory publishing contracts. Normalized growth for directory was 5%. Cash operating expenses increased 10.8% and total operating expenses increased 8.8%, slightly higher than our forecast of 8.3% due to the stronger revenue growth. Operating income totaled \$800 million, up 13.0% year-over-year and in line with our forecast.
- Below-the-line items accounted for the \$0.01 positive differential vs. our forecast. Interest expense totaled \$120 million, \$8 million lower than our forecast and down \$14 million year-over-year despite a slightly higher debt balance due to lower interest rates. Equity income from affiliates increased to \$53 million (vs. our forecast of \$42 million), up \$45 million year-over-year due primarily to an improvement in the Telmex contribution. We estimate that Telmex contributed about \$50 million (\$0.05/share) in the first quarter, down slightly from fourth quarter's (\$0.06-0.07/share) but up significantly from 1Q95 which included a \$0.04/share (\$35 million) loss due to peso devaluation. If 1Q95 were normalized for the peso devaluation, growth would be 10.1% versus the 17% reported. Partially offsetting Telmex contribution was dilution from SBC's investments in Chile, France and Korea (which we believe will dilute SBC's earnings by about \$0.06/share in 1996 vs. \$0.10-0.12/share in 1995). SBC reported an effective tax rate of 36.4%, higher than our forecast of 34.5% due to adjustments after the discontinuation of FAS 71. We now forecast an effective tax rate of 36% going forward.
- Stimulated by strong regional economic growth and rapid additional line growth, SBC grew total access lines a surprising 4.9%, well above our forecast and the fourth quarter's 4.5%. Residential lines grew 3.6%, up from 3.1% in 4Q due to strong additional line growth — 57% of the residential lines added in the last 12 months were additional lines for existing customers and penetration is now over 13%. Business line growth was 7.8%, equal to 4Q. Minutes grew 10.8%, just above our forecast (10.5%) and the fourth quarter's 10%.
- SBC has heavily promoted vertical services to drive up average revenue per line as illustrated by total telco revenue growth of 8.1% compared to line growth of 4.9%. Caller ID customers more than tripled in the past 12 months to reach a huge 26% penetration of the residential market served and a total

SBC:
Stable Line Growth;
Minute Growth
Acceleration



Cellular Stronger
than Year-Ago 1Q



* Penetration-gain reflect net subscriber additions (annualized) divided by population in properties.

Investment Conclusion:

Amidst our bullish view of the outlook for GTE and RBOC shares, SBC remains among our two top choices. We continue to rate SBC shares Accumulate (2) in the intermediate term and Buy (1) in the long-term. We are not overly concerned with the 2.5% estimated dilution that is expected to result from the PAC merger, partly because we believe the dilution could be lower and also because we believe long-term growth will accelerate as a result of the merger. From a 1997 base of \$3.70 (2.5% dilution), we expect the merged company to exhibit double-digit EPS growth as PAC's PCS dilution begins to subside, cost savings especially in SBC's territory begin to develop and PAC's marketing of vertical services (Caller ID, voice mail) and internet, long distance and PCS begin to benefit from SBC's experience with Cellular One. SBC's management has indicated that by 1999 the merger benefits should be sufficient to offset the dilution and to bring EPS back up the level they would have attained without the merger — which is \$4.60 by our estimate for SBC stand-alone. With SBC shares down slightly since the day of announcement, we believe the 2.5% dilution to be incurred in 1997 is now adequately reflected in SBC's valuation. Nevertheless, with arbitrage pressures likely to linger for awhile, we suspect SBC shares will linger as well.

customer base of over 2.5 million — and growing rapidly. SBC estimates residential penetration will reach 30% by the end of 1996.

***Cellular Penetration
Rate Highest in
Industry***

- Southwestern Bell Mobile Systems (SBMS) added 148,000 cellular subscribers in the first quarter for an annualized penetration gain of 1.7%, slightly better than our forecast of 1.6%, down from 4Q's 3.0% due to seasonal trends, but up from 1Q95's 1.3%. Total subscribers grew 23% year-over-year to 3.81 million for total penetration of 9.4%, the highest penetration rate of the in the industry. Cellular revenues grew 21.7% while cellular EBITDA grew 16.3% year-over-year. SBMS' EBITDA margin remained high (43% vs. 39% in 4Q) although declined from 45% a year ago. SBMS' revenue per sub averaged about \$55/month, only a 0.4% year-over-year decline, better than the RBOC average decline.

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U S WEST

USW - \$34 3/8

Q/RQ Rating	Shares Out	EPS		EPS			EPS Growth Rate	
		1Q96A	1Q95A	1995A	1996E	1997E	96/95E	97/96E
B-2-2-7	476	\$0.61	\$0.59	\$2.35	\$2.45	\$2.60	4.7%	5.8%

* EPS figures are on recurring basis and thus do not reflect one-time items.

Highlights:

1Q EPS, In-Line with Estimate, No Changes to '96E & '97E

Revenue Growth Above Forecast, Driven by Strong 2nd Line & Value Added Services Growth...

But Operating Expenses Much Higher than Expected Due to Winter Storms & Service Problem Expenditures

Operating Income Slightly Better than Forecast

- U S WEST Communications earned \$0.61/sh on a recurring basis in first quarter, equal to our estimate and up 4.5% year-over-year (vs. \$0.59). USW reported first quarter EPS of \$0.69, which included a \$0.08 gain on a FAS 121 depreciation change. We made no change to our 1996 & 1997 estimates of \$2.45 and \$2.60, respectively.
- U S WEST Communications Group reported total revenues of \$2.46 billion in the first quarter, up 6.3% year-over-year versus fourth quarter's 4.9% and our forecasted growth of 4.5%. The acceleration was driven by local service revenues which increased by 9.0% year-over-year versus fourth quarter's 7.8% and our forecast of 8.0%. This strong local revenue growth resulted from strong line growth and a 120% increase in value added services like Caller ID, return call, and repeat dialing. Toll service revenue declined by only 3.0%, an improvement from fourth quarter's 3.9% decline and 1995's 10.5% decline. We expect toll volumes and revenues were stimulated by severe winter weather and that the year-over-year decline will ramp back up to the 9-10% range for the rest of the year. 1+ intralata competition was introduced in Minnesota in February and in Arizona in April (combined only 16% of toll revenues), and we believe share loss and rate reductions will continue to reduce toll revenues going forward. We note however that intralata toll revenue loss is 55% recovered in the form of intrastate access.
- Total operating expenses increased 5.8% year-over-year, above our forecasted growth of 4.3%. The expense growth was driven by a 6.6% increase in employee-related expenses which included about \$15 million in overtime and contract labor costs related to winter flooding and another \$25 million related to fixing service quality problems. The service quality related portion is down from \$35 million in the fourth quarter and \$54 million in the third quarter. We expect such expenditures will continue to decline throughout the year as service quality improves. Other operating expenses increased 11.2% due to increased advertising expenditures to drive vertical services and fight intralata toll share loss. Depreciation was up only 3.6% vs. 8.2% in fourth quarter. This included an \$8 million reduction in depreciation due to a FAS 121 accounting change that requires U S WEST to cease depreciating assets held for sale, i.e., rural exchange lines. Excluding the FAS 121 effect, depreciation would have increased by 5.2% due to U S WEST's increased capital spending. Capital expenditures totaled \$711 million in first quarter 1996, up 30.5% from \$545 million in first quarter 1995 as U S WEST continues to spend heavily to try to meet state commission's service quality guidelines and increase capacity that will enable U S WEST to more efficiently keep up with demand for new lines and value added services. In 1995 U S WEST's core capital expenditures totaled \$2.74 billion, up from \$2.48 billion in 1994. We expect CAPX will total \$2.6 billion in 1996 and then drop back to around \$2.5 billion in 1997.
- Operating income totaled \$596 million (\$588 million normalized), up 8.2% year-over-year and was slightly better than our forecast of \$580 million. Interest expense increased \$10 million year-over-year to \$111 million but was still lower than our forecast of \$119 million. These two positives were offset by

higher than expected "other expenses" (\$16 million vs. \$6 million forecast) and a slightly higher than expected effective tax rate (37.3% vs. 36.9% forecast).

Strong Line Growth....

- Access line growth averaged 4.8% (normalized for rural exchange line sales), 60 basis points above fourth quarter and 50 b.p. better than our forecast. The line growth was driven by strong business line growth of 7.2% and residential line growth of 3.8%. Unlike the rest of the RBOCs, most of U S WEST line growth is primary lines due to the strong regional economic growth in U S WEST territory. We believe a similar growth rate is sustainable well into the future as U S WEST continues to focus on reducing backlog ("held orders") and driving second line growth once primary line growth begins to slow. Additional line penetration is now only 9% vs. an RBOC average of 12% (excl. Pacific Telesis with 23% additional line penetration). Minutes of use growth averaged 10.3%, better than fourth quarter's 9.3% and our forecasted growth of 9.5%.

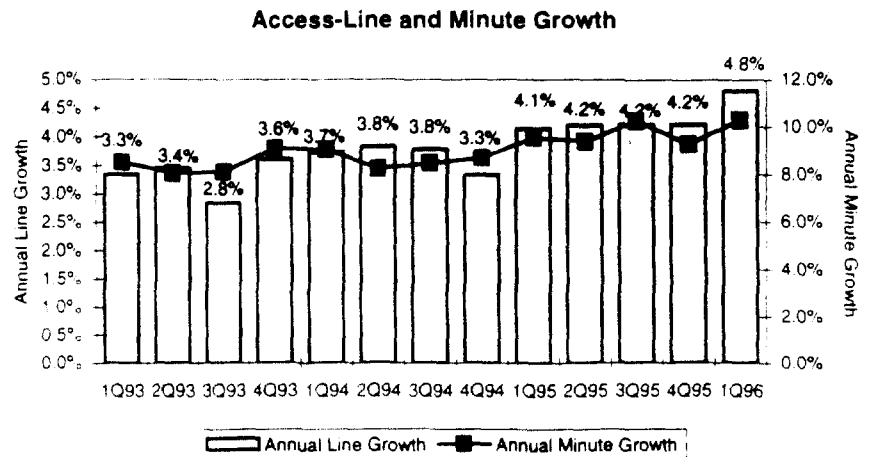
...Along with Enhanced Services Drove the Revenue Growth.

- U S WEST, similar to the other RBOCs, continues to drive revenue per line with value added services as evidenced by local revenues growing 9.0% year-over-year in first quarter, much faster than line growth of 4.8%. Enhanced services revenues increased 120% year-over-year in the first quarter. Combined with voice messaging, these features should contribute well over \$600 million in revenues in 1996 versus \$430 million 1995. U S WEST's Caller ID customers totaled 1.2 million (11% penetration of total residential lines) and voice messaging customers totaled 1.1 million (10% penetration of residential lines) at the end of 1Q.

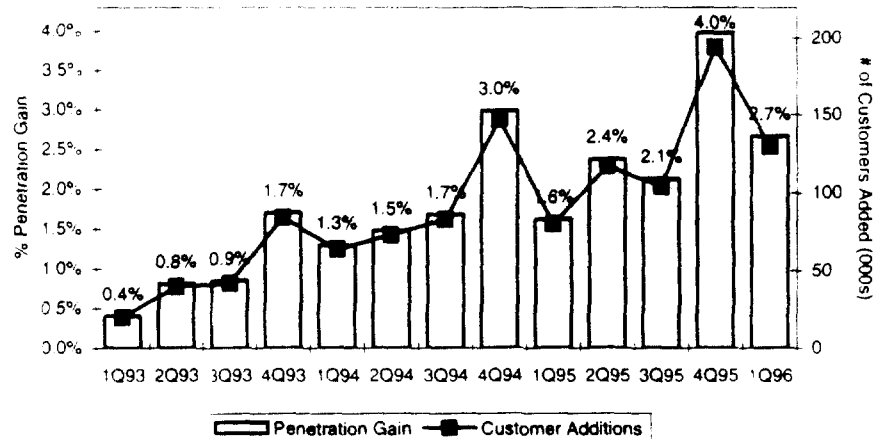
Regulatory Update —

- The recent disappointing rate order in Washington state (\$91 million revenue reduction) could cause earnings to be \$0.06-0.12 lower than our estimate in 1996 and 1997. However, we are not reducing our estimates at this time. A stay was granted on April 29th and we expect that U S WEST will accrue for a portion of the reduction, but the magnitude of the accrual is difficult to forecast at this time. The judge's ruling stays the portion of the WUTC rate order and approved several of the rate changes included in the Commission's order for private line, directory assistance and other services. The net, first year effect of the rate changes is a \$3 million revenue increase. Part of U S WEST's initial rate increase filing in Washington (its first in 13 years) was due to a capital recovery request totaling \$147 million. The commission did not rule on this request stating a separate case was necessary and therefore USW will refile for this increase. In addition, U S WEST has the ability in Washington to petition the court for immediate rate relief and has done so — requesting a \$50 million increase. A positive outcome in either or both of these requests could partially, or entirely, offset the \$91 million rate reduction.

**U S WEST:
Stable Minute
Growth Continues;
Line Growth
Accelerates**



Media Group Cellular Subscriber Adds and Penetration Gain



**Investment
Conclusion**

Our rating remains Accumulate (B-2-2-7). We are very encouraged by what appears to be an improvement in service quality that will enable USW to reduce overtime and contract labor expenditures going forward. In addition, the added capacity due to increased capital expenditures should help keep operating expenses in control. U S WEST currently has only 37% of its revenues under pure price caps (vs. RBOC average of 70%) and an additional 14% under some kind of incentive regulation. As a result, U S WEST still has significant potential for positive earnings revisions if its state regulators make the transition, as most RBOC regulators have, away from earnings regulation and toward price regulation. This would unleash incentives to sell more and seek efficiency gains services — in effect unlocking long dormant, natural operating leverage.

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GTE

GTE - S44 3/8

QRO Rating	Shares Out	EPS		EPS			EPS Growth Rate	
		1Q96A	1Q95A	1995A	1996E	1997E	96/95	97/96
B-2-2-7	973	\$0.62	\$0.56	\$2.61	\$2.87	\$3.15	10.4%	9.8%

* EPS figures are on recurring basis and thus do not reflect one-time items.

Highlights:

**1Q EPS Double Digit
Growth, On Target
with Estimates**

- GTE's reported EPS of \$0.62 (before a one cent gain on non-strategic telco property sales) up 10.7% from \$0.56 in 1995 were on target with our and consensus estimates. The quarterly gain is the third consecutive increase at a double digit rate. The company is on trajectory to achieve targeted double digit EPS gain in 1996.

Revenue Gains

Strongest Since 4Q '91

- The consolidated revenues and sales growth of 6.1% to just under \$5 billion was the best increase since Q4 '91. Basic telco again was the star with strong access lines (including special access) and access usage well above average. Cellular gains, while solid, were less than industry averages as the company continues its active program to cull out lower-value customers and add and retain better quality subscribers. Adding to earnings growth was a \$17 million improvement in other income including better results from Venezuela. The effective tax rate was 38.1% vs. 38.2% in Q1 1995.

Strong Domestic

**Access Line & Minute
Growth**

- Domestic access lines grew by 6.6% to 18.8 million by the end of 1Q 1996. Switched access lines grew by 4.0% and special access by 35.5%. Total lines, including international were up 6.2%, equal to the 1995 period. Second lines accounted for more than 50% of the gain. Line growth was especially strong in Texas, New Mexico Virginia and the South in general. Domestic access minutes of use increased 9.7% off a bit from Q4 '95 but well above the industry average. Access lines per employee increased 14% from 261 a year ago to 298. This productivity indicator was up 3% from the 289 in Q4 1995. GTE has completed approximately 13,000 position reductions of the 17,000 mentioned in process re-engineering.

Cellular Growth Solid

Year-Over-Year

- Cellular subscriber growth, normalized for property sales, was 26% or a net gain of 83,000 in the quarter bringing total domestic customers to 3,094,000. Cellular revenues were up 22% to \$555 million in the quarter. In 1995 the company took a calculated risk in targeting higher-value customers in its marketing program. The results are (1) lower net adds (2) a slight reduction in churn to 2.5% (3) average monthly revenue per sub has stabilized at \$61, the same level as in Q4 1995 and off 3.2% from the \$63 Q1 1995, and (4) a modest improvement in both operating and cash flow margins. GTE is still aiming to lower the churn rate with some success (down to 2.4% in March). Expects sub growth to pick up in Q's 2 & 3 and to approach 30% this year.

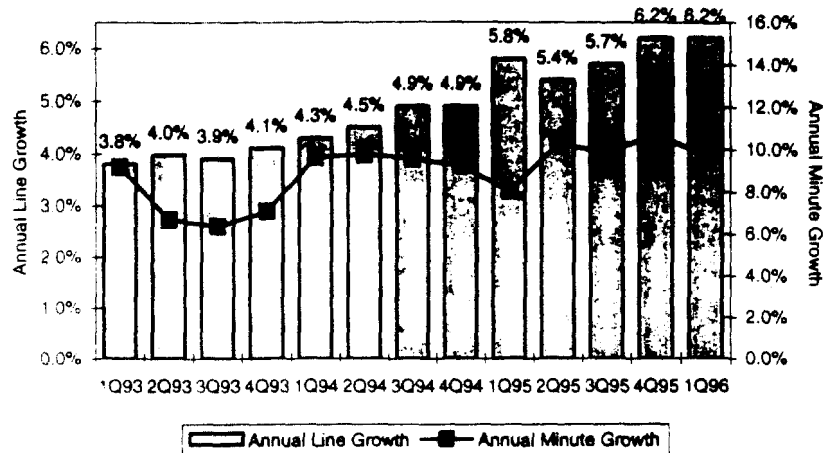
GTE Enters the Long

**Distance Market,
Customer Growth
Better than Expected**

- GTE entered the interLATA market (i.e., Long Distance) in the following states: Michigan, Minnesota, Illinois in March and Florida, Washington, Kentucky in April. At its quarterly analyst meeting on GTE reported that after 7 weeks, it has 50,000 LD customers (with a later than expected start due to the delay in legislation). The company is offering a 25% discount to over \$25 a month LD users and has a special double discount i.e., 50% for first six months. A LD customer between \$10 and \$25 per month is offered a lesser discount. So far customer growth has been better than expected and customers have signed up use twice the industry average in minutes per call. Customers like one bill, one company, with a simple, easy to understand discount. GTE would not state the LD customers target number by year end '96 but is still shooting for a 30% market share of the addressable market in 3 years and is planning entry in 6 more states in 2Q and will be in the market in all 28 states by year end.

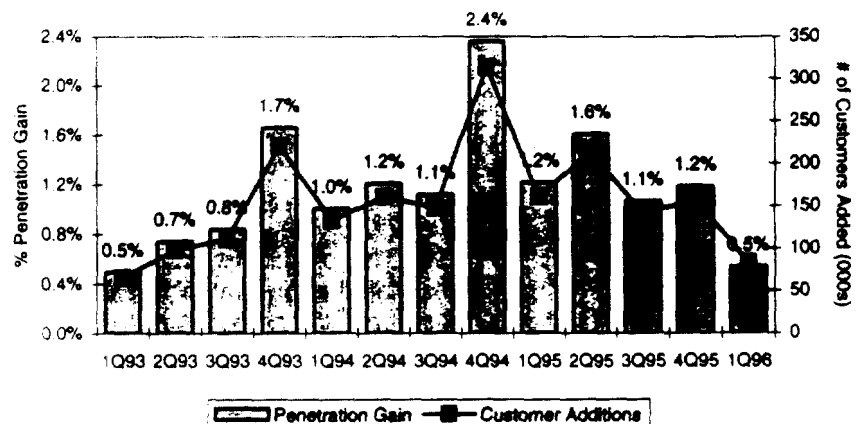
GTE:
Best of the Group
Line Growth,

Access-Line and Minute Growth



Worst of the Group
Cellular Gains

Cellular Subscriber Adds and Penetration Gain*



* Penetration-gain reflect net subscriber additions (annualized) divided by population in properties.

Investment Conclusion

We maintain our B-2-2-7 opinion on GTE's shares. The company is optimistic regarding its entry into long distance. With the new telecom legislation, GTE, unlike the RBOCs, has entered the long distance business immediately — an opportunity which should provide a boost to earnings growth in the future. This coupled with strong traditional Telco operations performance supports management's assertion of GTE's EPS growth of "not less than 10%." in 1996.

Appendix 1

Investment Highlights:

RBOCs' 1Q Results: Price Caps Unleash Operating Leverage

(Previously published on April 23, 1996)

- For the 7 RBOCs/GTE reporting so far, first quarter 1996 has been consistently better than our forecast. We have raised our 1996 estimates and growth rates, attributable to the emergence of operating leverage under new price cap regulatory plans. Second lines, vertical services with high incremental margins, overall increased usage, and intensified cost management are creating margin expansion which now can flow to the bottom line. Long distance is the ultimate vertical service. We continue to rate the RBOCs and GTE at Accumulate (2) or higher and see more than 20% upside on average.

Discussion:

With GTE (GTE \$43 3/8, B-2-2-7) and 6 RBOCs (all but U S West (USW \$32 1/8, B-2-2-7) having reported first quarter 1996 financials in the last few days, the results are consistently better than we and consensus expected: **Average EPS growth for the 7 companies reporting so far is 13% — far above our forecast of 9% and fourth quarter 1995's 7.4%. We have raised 1996 and 1997 EPS estimates by \$0.05-\$0.10/share for all except GTE which remains unchanged. (See Table 1)**

EPS increases include: Ameritech (AIT, \$59 1/2, B-2-1-7) for which we have raised 1996 est. EPS to \$3.82 (from \$3.75) and 1997 EPS to \$4.25 (from \$4.15); Bell Atlantic (BEL \$67 1/4, RSTR) for which our pre-merger EPS estimates are raised \$0.05/sh. to \$4.30 in 1996 and \$4.70 in 1997 (\$4.95 in 1997, post merger); and NYNEX (NYN \$50 1/2, RSTR) raised \$0.02 /sh., 1996E and 1997E to \$3.57 and \$3.87 respectively; PacTel (PAC \$34 3/8, B-2-2-8) raised \$0.10/sh., 1996E \$2.60 (from \$2.50) and 1997E to \$2.45 (from \$2.35); BellSouth (BLS \$39 7/8, B-2-2-7) for which 1996E is raised by \$0.05/sh. to \$2.50 and 1997E is raised by \$0.08 to \$2.75; and SBC (SBC \$50 1/2, B-2-1-7) for which we are raising our 1997 estimate by \$0.10 to \$3.70 to reflect better-than-expected first quarter 1996 results and our higher forecast at PacTel with which we expect the previously-announced merger to close within a year. For SBC, we now forecast only 2.5% dilution from the merger.

The positive results derive from the long-dormant (and ignored) but newly-activated operating leverage of the local phone industry. **Suppressed by various forms of rate of return (i.e., earnings) regulation, this operating leverage is emerging as a result of 1995's dramatic progress toward price instead of ROR regulation.** In 1995, FCC and numerous state regulators dramatically loosened the regulatory environment — moving by our calculations from yearend 1994 with only 23% of RBOC/GTE telephone revenue streams regulated by pure price caps to 72% currently and likely to rise further in the future.

1. **This has unleashed incentives to seek more efficiencies and to aggressively sell more units such as second lines and "vertical" features such as voice mailboxes, caller identification services, etc.** With prices instead of earnings regulated, unit growth and cost reductions can flow directly to the bottom line — all while regulators and consumers are protected by guaranteed lower prices in accordance with an annually-adjusted price cap formula. This phenomenon is real and clearly a win-win for politicians, consumers and — for once — investors. (See Table 4)
5. **An added benefit is that most of the new, fast-growing features generate high incremental margins.** This is because they are software-based and thus carry low capital costs and, beyond marketing and service, low operating

costs as well. With sales of second lines and features growing 25-50% per year and penetration rates still low at 10-20%, we believe much operating leverage remains and thus we remain quite comfortable with our 5-year compound annual EPS growth forecast of 9-10% for the 8 company average (i.e., 7 RBOCs and GTE).

6. **The ultimate vertical service feature is long distance** — which, once FCC approval is obtained, increases the typical RBOC's addressable market by 65% in gross revenue terms and nearly 40% in revenues net of access charges already collected by the RBOCs. We use the term *ultimate* because, like other vertical features, long distance can be offered to already existing customers with minimal capital investment but unlike vertical features, customers do not have to be convinced to use it. They already are using it; they simply need to be convinced to change suppliers — something they do every day as evidenced by very high churn rates in the consumer long distance market and recent churning of some major corporate accounts from MCI to AT&T (e.g., IBM among others).

7. **Price caps, in our view, will allow the high incremental margins and low capital intensity of long distance to flow to shareholders and, similarly, enables the RBOCs and GTE to gain enough to offset the pain of losing (what we believe will be) comparable market share in the local telephone market.** Indeed, because it is likely that the RBOCs will enjoy more of a buyers' market for long distance than the new entrants in the local market will enjoy for local capacity, we are able to reach our counterintuitive conclusions. For example, in contrast to many, we do not believe the RBOCs will lose more than they gain and this is despite the fact that the long distance market (including access) is 25% smaller than and has average margins only half of those in the local market. In fact, our math shows the RBOCs achieving INCREMENTAL long distance EBITDA margins in the 25% range which is comparable to those achieved on average by the major long distance companies today. However, one extremely important difference exists which is that very little capital (thus little depreciation or interest) will be expended — which translates into the **startling conclusion that the RBOCs can earn nearly 25% PRETAX margins in long distance, about twice what AT&T and MCI currently earn!** (Our math for RBOC margins is as follows: access at 40% and SG&A at 25% of gross revenues, similar to AT&T; and leased long distance transport capacity at currently offered volume-purchase rates of \$0.015/minute or 10% of gross revenues; and minor capital investment which, if spent, might enable self-supply of in-region long distance and thus lead to some bypassing of \$0.015/minute transport charges and slightly higher margins.)

Investment Conclusion

The year-to-date 13% underperformance of the RBOC group due mostly to the down trend in the bond market has created attractive valuations for the RBOCs and GTE. While currently trading at 11% P/E discounts to the estimated 1996 market P/E, we believe a 10% premium is warranted given above market 5-year EPS growth, double the market's yield and more defensiveness than the S&P 500 index. Thus, we continue to see **more than 20% average price appreciation upside (plus average dividend yields of 4.5%) from the RBOC/GTE group.** We see the greatest upsides for SBC, Ameritech, BellSouth and PacTel — the latter a cheaper though riskier way to purchase SBC shares.

The recent merger announcement by SBC and PacTel should raise investor awareness of opportunities for synergies and expanded long distance footprints and thus **value creation and long term earnings growth enhancement from additional mergers**

Table 1

Valuation Comparisons

Company	ORQ Rating	Price @ 4/23/96	EPS *			P/E Ratio			Current EPS		
			1995A	1995E	1997E	1995A	1995E	1997E	1995	1996E	% chg
Ameritech (AIT)	B-2-1-7	\$59.75	\$3.41	\$3.82	\$4.25	17.5	15.6	14.1	0.76	0.88	13.7%
Bell Atlantic (BEL)	RSTR	\$67.25	\$3.88	\$4.30	\$4.95	17.3	15.8	13.8	0.95	1.07	12.8%
BellSouth (BLS)	B-2-2-7	\$40.00	\$2.24	\$2.50	\$2.75	17.9	16.0	14.5	0.55	0.63	14.4%
NYNEX (NYN)	RSTR	\$50.50	\$3.28	\$3.57	\$3.87	15.4	14.1	13.0	0.73	0.83	13.5%
Pacific Telesis (PAC)	B-2-2-8	\$34.38	\$2.46	\$2.60	\$2.45	14.0	13.2	14.0	0.87	0.70	4.6%
SBC Comm.(SBC)	B-2-1-7	\$50.50	\$3.08	\$3.45	\$3.70	16.4	14.6	13.6	0.66	0.76	17.2%
U.S. WEST (USW)	B-2-2-7	\$32.38	\$2.35	\$2.45	\$2.60	13.8	13.2	12.5	0.59	0.61	3.5%
RBOC Average						16.0	32.8	13.6			11.4%
GTE	B-2-2-7	\$43.38	\$2.61	\$2.87	\$3.15	16.6	15.1	13.8	0.62	0.56	-10%
S&P 500		648	\$37.25	\$39.50	\$40.25	17.4	16.4	16.1			

Table 2

Line Growth & Minute Growth

	Total Lines					Access Minutes				
	1995	2000E	1995	1996E	1997E	1995	2000E	1995	1996E	1997E
AIT	3.8%	4.2%	4.4%	4.5%	4.5%	6.9%	8.7%	8.7%	9.1%	10.4%
BEL	2.9%	3.1%	3.3%	3.4%	3.5%	6.8%	8.6%	8.3%	8.2%	12.7%
BLS	4.6%	4.8%	4.7%	4.5%	4.8%	8.9%	9.6%	9.7%	9.0%	10.8%
NYN	3.3%	3.2%	3.0%	3.4%	3.6%	6.0%	9.0%	9.4%	10.4%	11.0%
PAC	2.8%	2.9%	2.7%	3.0%	3.9%	10.8%	10.7%	11.0%	11.0%	9.9%
SBC	3.6%	4.0%	4.2%	4.5%	4.9%	11.0%	11.1%	11.3%	10.0%	10.8%
USW (est.)	4.2%	4.2%	4.2%	4.2%	4.3%	9.6%	9.4%	10.3%	9.3%	9.6%
RBOC Avg	3.6%	3.8%	3.8%	3.9%	4.2%	8.6%	9.6%	9.8%	9.6%	10.7%
GTE*	5.1%	5.4%	5.7%	6.2%	6.6%	7.5%	10.3%	9.9%	10.7%	9.7%

Table 3

Cellular Subscriber Growth

	1995		Annual Growth	Net Adds	Annualized Penetration Rate		
	1995	1996			1995	1996E	1997E
Ameritech	2043	1432	42.7%	152	2.87%	4.08%	2.61%
BANM	3575	2520	41.9%	219	1.57%	2.74%	1.29%
BellSouth	3046	2320	31.3%	199	1.90%	3.03%	1.63%
SBC	3807	3092	23.1%	148	1.88%	3.06%	1.25%
USW (Media Group)	1593	1048	52.0%	130	2.67%	3.98%	1.62%
RBOC Avg			35.1%		2.15%	3.38%	1.66%
GTE (normalized)	3094	2500	26.0%	83	0.54%	1.18%	1.21%

Table 4

Value Added Services & Additional Line Penetration

	Residential Lines	Add'l Line Penetration	Penetration Rates [1]		
			Call Waiting	Voice Mail	Caller ID
Ameritech	12,364	12%	46%	5%	19%
BellAtlantic	12,747	13%	43%	10%	13%
BellSouth	14,865	10%	56%	11%	16%
NYNEX (est.)	11,381	13%	40%	8%	12%
PacTel	10,016	23%	48%	6%	0%
SBC	9,651	13%	51%	7%	24%
US WEST (est.)	10,530	9%	40%	10%	11%

[1] Penetration of total residential lines in service.

Does not adjust for residential lines marketed. Penetration rates for lines marketed would be slightly higher.

Table 5

Revenues Under Price Cap Regulation

	Year-end 1994 % of Telco Revs Under Price Caps	Current % of Telco Revs Under Price Caps
Ameritech	65%	100%
BellAtlantic	30%	61%
BellSouth	3%	100%
NYNEX	5%	95% [1]
Pacific Telesis	19% E	36% [2]
SBC	33%	100% [3]
USWEST	38% E	62%
GTE	8% E	33%
Weighted Average	23%	72%
Excluding PAC and GTE	27%	87%

[1] Only Vermont, NH not under price reg.

[2] Nevada - commission approved, but rate case to follow prob. 1998 (2% of revenues).

[3] Kansas law in effect thru 3/97. Missouri still technically under ROR, but no earnings review until 2000, same for Arkansas thru 1998. OK still technically under ROR, but no review for the next couple years.